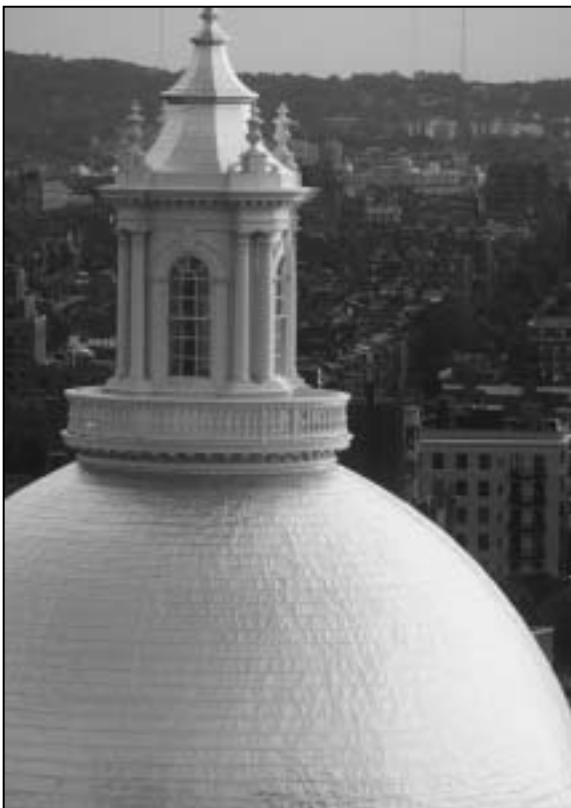


SECTION I

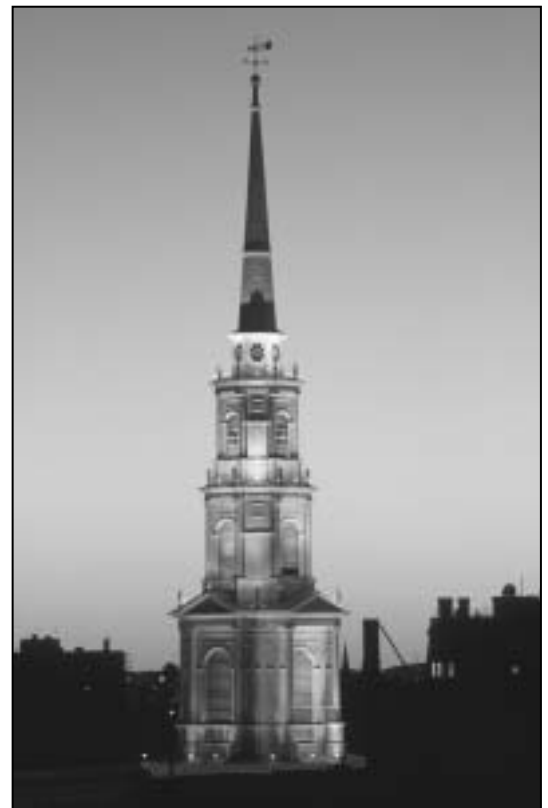
Independent Auditor's Report



Boston Common



The State House Dome
Photograph by Steve Dunwell



Park Street Church
Photograph by Steve Dunwell



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts ("Commonwealth") as of and for the year ended June 30, 2005, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated December 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Commonwealth's internal control over financial reporting, applicable to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining funds information of the Commonwealth included within the scope of our audit as described in our report referred to above, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation relating to the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements are included with the scope of our audit that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commonwealth's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs as Finding Number 4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, applicable to the Commonwealth for those matters relating to the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth included within the scope of our audit, as described in our report referred to above, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Accordingly our testing of compliance did not extend to tests of compliance with laws, regulations, contracts and grant agreements for the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements were audited by other auditors. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Commonwealth in a separate letter dated December 22, 2005.

This report is intended solely for the information of management, the Honorable Members of the General Court and the federal awarding agencies, and pass-through grantor entities and is not intended to be and should not be used by anyone other than these specified parties.

December 22, 2005

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts

COMPLIANCE

We have audited the compliance of the Commonwealth of Massachusetts (the "Commonwealth"), for only those matters relating to compliance of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth included within the scope of our audit as described in our report on the basic financial statements dated December 22, 2005, and as further described in Note 2 to the Schedule of Expenditures of Federal Awards, with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. Our testing of compliance did not extend to tests of compliance with laws, regulations, contracts and grants for the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements were audited by other auditors. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major Federal programs is the responsibility of the management of the Commonwealth. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commonwealth's compliance with those requirements.

In our opinion, the portion of the Commonwealth included within the scope of our audit, complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Part III of Section II, the Schedule of Findings and Questioned Costs and Section V as listed in the table of contents.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to Federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major federal program, applicable only to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth included within the scope of our audit as described in our report on the basic financial statements dated December 22, 2005 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the Commonwealth's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2005, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 22, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the Commonwealth's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of management, the Honorable Members of the General Court and federal awarding agencies, and pass-through grantor entities and is not intended to be and should not be used by anyone other than these specified parties.

December 22, 2005